GENERAL FUND

STRUCTURAL BALANCE

Structural balance is defined as the matching of *ongoing* revenues with *ongoing* expenditures. If revenues equal or exceed expenditures, structural balance is achieved. Conversely, if expenditures exceed revenues, structural imbalance occurs. General fund expenditures have exceeded revenues for five of the last nine biennia in the late 1980s, 1990s, and early 2000s (see Figure 1). The structural balance for the 2009 biennium is expected to be $146.0 million, which includes an allowance for $416.1 million of one-time-only disbursements.

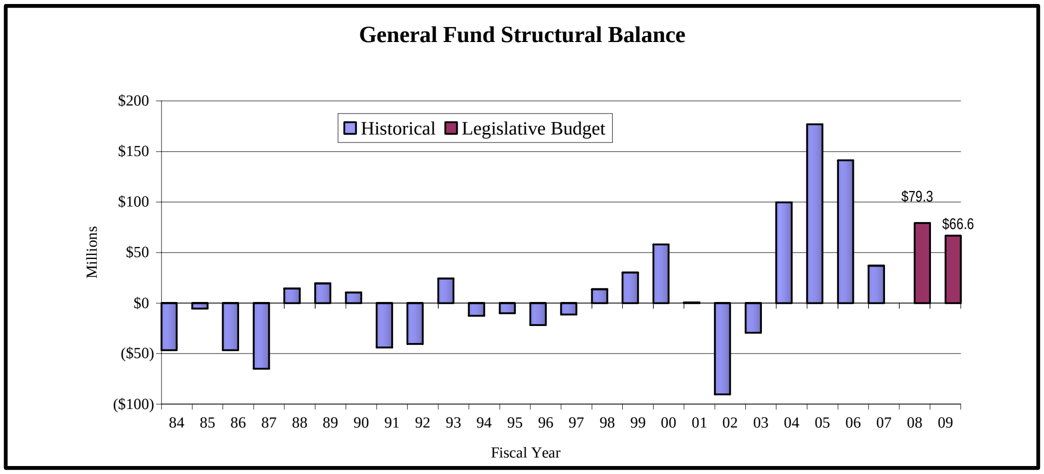
Figure 1

Revenue and Disbursement History
General Fund & School Equalization Accounts
In Millions

	Fiscal Year	General Fund Revenue	General Fund Disburse.	Surplus / Deficit	School Equalization Revenue	School Equalization Disburse.	Surplus / Deficit	GF/SEA Revenue	GF/SEA Disburse.	Surplus / Deficit	Biennium Surplus/Deficit
A	84	$330.305	$357.387	($27.082)	$242.384	$261.753	($19.369)	$572.689	$619.140	($46.451)	
A	85	364.522	380.359	(15.837)	281.275	271.016	10.259	645.797	651.375	(5.578)	($52.029)
A	86	349.541	366.815	(17.274)	252.899	282.166	(29.267)	602.440	648.981	(46.541)	
A	87	346.690	391.325	(44.635)	263.052	283.428	(20.376)	609.742	674.753	(65.011)	(111.552)
A	88	391.152	370.853	20.299	276.216 *	281.886	(5.670)	667.368	652.739	14.629	
A	89	411.729	388.270	23.459	275.589 *	279.536	(3.947)	687.318	667.806	19.512	34.141
A	90	447.962	432.323	15.639	282.389	287.393	(5.004)	730.351	719.716	10.635	
A	91	420.257	457.612	(37.355)	385.031	391.500	(6.469)	805.288	849.112	(43.824)	(33.189)
A	92	487.036	523.072	(36.036)	393.591 *	398.059	(4.468)	880.627	921.131	(40.504)	
A	93	539.955	523.553	16.402	412.903	405.067	7.836	952.858	928.620	24.238	(16.265)
A	94	480.021	497.921	(17.900)	411.834	406.388	5.446	891.855	904.309	(12.454)	
A	95	646.149	535.461	110.688	289.199 *	409.822	(120.623)	935.348	945.283	(9.935)	(22.389)
A	96	963.193	984.997	(21.804)				963.193	984.997	(21.804)	
A	97	986.570	997.835	(11.265)				986.570	997.835	(11.265)	(33.069)
A	98	1,034.382	1,020.591	13.791				1,034.382	1,020.591	13.791	
A	99	1,068.111	1,037.961	30.150				1,068.111	1,037.961	30.150	43.941
A	00	1,163.641	1,105.599	58.042				1,163.641	1,105.599	58.042	
A	01	1,269.472	1,268.938	0.534				1,269.472	1,268.938	0.534	58.576
A	02	1,265.713	1,355.903	(90.190)				1,265.713	1,355.903	(90.190)	
A	03	1,246.381	1,275.827	(29.446)				1,246.381	1,275.827	(29.446)	(119.636)
A	04	1,381.565	1,282.038	99.527				1,381.565	1,282.038	99.527	
A	05	1,530.949	1,354.020	176.929				1,530.949	1,354.020	176.929	156.820
A	06	1,708.166	1,566.739	141.427				1,708.166	1,566.739	141.427	
F	07	1,768.657	1,731.709	36.948				1,768.657	1,731.709	36.948	454.831
F	**08**	**1,805.903**	**1,726.560**	**79.343**	**Legislative Budget ****			**1,805.903**	**1,726.560**	**79.343**	
F	**09**	**1,875.479**	**1,808.856**	**66.623**	**Legislative Budget ****			**1,875.479**	**1,808.856**	**66.623**	**145.966**

* Excludes Education Trust & General Fund Transfers.
** Excludes One-Time Appropriations/Transfers
Note: The 1995 Legislature de-earmarked school equalization revenue to the general fund.

Figure 2



In the early 1990s, the legislature began to make progress toward addressing the problem of continuing structural imbalance in the general fund. In setting revenue and expenditure targets, the 1993 House adopted language prohibiting use of "one-time revenue...for any purpose other than creating an ending fund balance" and "temporary solutions to the state's chronic fiscal woes." This effort continued into future sessions, and final legislative actions taken during the 1993 and subsequent sessions have reflected these objectives. However, supplemental appropriations have sometimes contributed to a structural imbalance because the legislature does not budget for contingencies or other unforeseen events or emergencies.

On the expenditure side, legislators have faced the difficulty of restraining budget growth when confronted with double-digit growth in corrections costs, increased human services demands, and rising funding requirements for education. In the 1993 and subsequent sessions, the legislature enacted measures to contain costs in programs growing faster than revenues, such as Medicaid and foster care. These measures were designed to slow expenditure growth and to help the legislature reach structural balance in the general fund in future biennia.

The effort to minimize use of one-time revenues for ongoing programs and enact measures to permanently control expenditure growth began to show success in recent biennia. However, the 2001 legislature adopted a $56.9 million structurally unbalanced budget for the 2003 biennium. Two years later, expected revenues deteriorated significantly and the imbalance grew to nearly $120.0 million for the 2003 biennium. This amount is in spite of over $81.8 million in budget reductions implemented by the executive under 17-7-140, MCA, and legislative actions taken during the August 2002 Special Session. The only reason the ending fund balance for the 2003 biennium remained positive is because the biennium began with a $172.9 million carry-forward balance.

The difficult task of achieving structural balance is further exacerbated by delayed implementation of expenditure increases and revenue reductions in future budget cycles (2009 biennium and beyond). In many cases, expenditure increases do not occur at the beginning of the biennium, but are phased-in over the biennium. This results in less cost for the current biennium, but increased costs to fund the same level of program services in the following biennium. As an example, the state employee pay plan increases are phased-in over the 2009 biennium, and the cost to fully fund the pay plan in the 2011 biennium will result in a general fund increase of $83.5 million.

Phased-in revenue reductions have the same effect as phased-in expenditure increases. For example, SB 407 (2003 session) authorized an increase in cigarette, tobacco, rental car, and lodging facility taxes coupled with a corresponding reduction in individual income taxes. Because of the phased-in provisions for the individual income tax reduction, the bill increased general fund revenues in the 2005 biennium, but decreased general fund revenues in the 2007 biennium.

As shown in Figures 1 and 2, general fund revenues are greater than disbursements for FY 2008 and 2009 after adjusting for one-time-only disbursements. This means that the on-going revenue base for the biennium is greater than the on-going disbursement base and that the 61st Legislature should have a positive fund balance to work with during the 2009 Legislature.

OUTLOOK FOR THE 2011 BIENNIUM

The projected structural balance for 2009 biennium is $146.0 million. Although the state is structurally balanced for the 2009 biennium, any unanticipated fund balance in the 2009 biennium should not be used for on-going costs in the 2011 biennium. In addition, there are fiscal "potholes" that could be troublesome as the state moves toward the next biennium. For example, a potential public school lawsuit, the increased costs of the phased-in employee pay proposal, rising corrections populations, and continued double digit medical inflation coupled with the potential reduction in federal Medicaid funding could easily consume average revenue growth for the 2011 biennium. Structural balance depends on the ability of ongoing revenue to meet anticipated present law disbursement costs. If average revenue growth is in the range of 3.5 to 4.5 percent per year, then the costs of present law services cannot exceed this amount. If additional present law costs or any new proposals are required, then tax policy modifications and/or an adjustment to services provided will be required.

HIGHWAYS STATE SPECIAL REVENUE ACCOUNT PROJECTIONS

The following figure summarizes the projections of working capital for the highways state special revenue account. This account funds the Department of Transportation highway planning, construction, and maintenance activities; highway safety enforcement activities in the Department of Justice; road maintenance functions in state parks; and capital projects related to highways infrastructure. The highways state special revenue account has been chronically structurally imbalanced, and previously the level of revenue growth could not sustain the level of expenditure growth needed to support the services provided. For the 2009 biennium this situation has been reversed and revenues are expected to exceed expenditures through the 2011 biennium. The projections show expected revenues would exceed appropriations for the 2009 biennium by $7.3 million and by $12.3 million for the 2011 biennium. At the same time, while all anticipated federal funds are matched, state funded activities have been curtailed to maintain a positive fund balance in the 2009 biennium and future balance is dependent upon maintenance of the curtailment. A detailed working capital analysis for the highways state special revenue account is provided in the Department of Transportation agency discussion in Volume 3, page A-85.

Figure 3

Working Capital Analysis - Highways State Special Revenue Account
Fiscal Years 2006- 2011
(in Millions)

	FY 2006 Actual	FY 2007 Approp.	FY 2008 Approp.	FY 2009 Approp.	FY 2010 Forecast	FY 2011 Forecast
Beginning Working Capital Balance	$43.6	$27.2	$12.5	$15.1	$19.8	$26.6
Revenues	271.2	273.2	279.0	280.3	290.1	296.6
Available Working Capital	314.9	300.4	291.5	295.4	309.9	323.2
Authorized Expenditures	283.6	323.1	276.4	275.6	283.3	291.1
Adjustments	4.1	-35.2	0.0	0.0	0.0	0.0
Ending Working Capital Balance	$27.2	$12.5	$15.1	$19.8	$26.6	$32.2
Variance - Revenues less Expenditures	(12.4)	(49.9)	2.6	4.7	6.8	5.5

The FY 2007 adjustment is the assumed reversion based on reversion history from FY 2000 through FY 2006.